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SIPDIS

STATE EB/IFD/ODF FOR DEMARCELLUS

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TAGS: [EAID](#) [ECON](#) [EFIN](#) [IT](#) [IZ](#) [IRAQI](#) [FREEDOM](#)

SUBJECT: FOLLOW-UP WITH ITALY AFTER MEETING OF IRAQI DONORS  
IN TOKYO

REF: A. SECSTATE 250700

[B](#). ROME 1092

Classified By: Economic Minister Counselor Scott Kilner for reasons 1.4  
(b)(d).

[1](#)1. (SBU) Summary: The GOI has disbursed approximately Euro 65 million (\$86.3 million) in humanitarian and reconstruction assistance to Iraq for 2003-2004, according to Ministry of Foreign Affairs officials responsible for Iraq reconstruction aid. This total includes Italy's long-delayed 2004 payment of Euro 10 million to the International Reconstruction Fund Facility for Iraq (IRFFI). In addition, Italy has made an extra donation of Euro two million to the IRFFI's special election assistance account. The GOI is counting all projects presented at the Tokyo Donor's Conference, including donations of humanitarian assistance, as falling under Italy's Euro 200 million Madrid pledge. Italy is likely to disburse around Euro 30 million in grants for Iraq reconstruction in 2005, though Post's interlocutors expressed concern that Italy's foreign aid budget might face additional cuts next year. End summary.

Total 2003-04 Disbursement About Euro 65 Million  
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[1](#)2. (SBU) Per ref A, Ecmin and Econoff met December 16 with Gianni Ghisi, Deputy Director General of Development Cooperation at the Ministry of Foreign Affairs, and Luigi Maccotta, Deputy Director of the MFA's Iraq Task Force, to seek clarification of the GOI's Iraq assistance disbursements. At the Tokyo Donors Conference, Ghisi and Maccotta presented a detailed list of GOI-funded assistance programs totaling Euro 99,765,000 (\$132 million). Ghisi and Maccotta explained that approximately Euro 62 million (62 percent) of these funds have been disbursed since the start of the Iraq conflict. (Note: For a copy of this list, please email Gregory May at MayGC@state.gov. Maccotta also supplied Econoff with an updated summary of all Italy-funded reconstruction projects. Post will send this summary septel. End note.)

[1](#)3. (SBU) Maccotta and Ghisi explained that two items on the list remain undisbursed: the Euro 32,410,000 listed as "unallocated" and the Euro 4,785,000 pledge to the World Meteorological Organization (WMO). The Euro 32 million, Maccotta explained, represents the GOI's planned Iraq aid disbursements for 2005 while, Ghisi added, the WMO's project to rehabilitate Iraqi meteorological infrastructure has encountered bureaucratic delays within the Iraqi Interim Government.

[1](#)4. (U) Maccotta noted that, in response to calls made at the Tokyo meeting, the GOI has disbursed an additional Euro two million to the special "cluster 11" election assistance account within the International Reconstruction Fund Facility for Iraq (IRFFI). (Note: This donation is in addition to the Euro 400,000 Italy has already allocated for training election workers. End note.) This would bring total Italian aid disbursements to date to approximately Euro 65 million.

All Italy-Funded Projects Fall Under Madrid Pledge  
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[1](#)5. (SBU) Maccotta and Ghisi said that the GOI considers all projects listed, including those involving emergency humanitarian assistance, as counting towards Italy's Euro 200 million Madrid pledge. They argued that this was appropriate because humanitarian assistance creates the necessary conditions for long-term reconstruction to proceed -- the two are inextricably linked.

Euro 10 Million IRFFI Donation Delivered  
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[1](#)6. (U) The disbursement grand total includes Italy's Euro 10 million 2004 payment to the International Reconstruction Fund Facility for Iraq (IRFFI), which, Ghisi said, has already been received by the UNDP. Italy, Ghisi explained, has earmarked its 2004 IRFFI donation for three UNDP projects targeting development of cottage industry, rehabilitation of Iraq's dairy industry, and promotion of entrepreneurship

## Budget Problems Will Limit 2005 Disbursement

17. (SBU) Ghisi commented that Italy's foreign aid budget is under severe strain. The MFA's Directorate of Development Cooperation (Italy's equivalent of USAID) experienced an unexpected budget cut of Euro 100 million in 2004. The MFA, he said, predicts that Italy's ODA spending will be cut in 2005 from the current 0.17 percent of GDP, to 0.14 or 0.135 percent, meaning the GOI will have approximately Euro 700 million available to cover all 2005 bilateral and multilateral aid commitments. Ghisi stated that, as a result of this year's budget crunch and the need to prioritize Iraq contributions, Italy has delayed some projects in other countries, including a Euro 10 million commitment to Somalia, that will need to be made up in the coming year.

18. (SBU) For Iraq, Maccotta predicted, Italy would likely disburse an additional Euro 30 million in reconstruction grants in 2005. In addition to these grants, the GOI hoped to negotiate a Euro 25 million bilateral soft loan with Iraqi authorities next year. If approved, the soft loan would likely fund development of small- and medium-sized enterprises, according to Ghisi. (Note: Ghisi has said in previous meetings that such a loan would also count towards Italy's Madrid pledge. The GOI had hoped to make such a loan in 2004, but has yet to start negotiations with Iraqi officials. End note.)

## Future Focus on Agro Business, Environment

19. (C) In terms of future Iraq projects, Ghisi said, Italy, in cooperation with UNIDO, may fund a survey of Iraq's agro industry. In addition, Maccotta and Ghisi predicted future Italy-funded projects in Iraq will focus more closely on the environment. (Note: The GOI plans to continue funding its "New Eden" marshland recovery project (ref B) in 2005. End note.) Ghisi remarked that the MFA plans to increase the environmental component of its Iraq aid partly for public relations reasons. The Italian public tends to look favorably on environmental projects, he observed, and the MFA hopes greater public support will help insulate Italy's aid budget from further cuts. To this end, Ghisi said, Development Cooperation officials have also stepped up their outreach efforts to promote Italy's foreign aid "successes" and the need to maintain current aid levels.

## Renewed Private-Sector Interest

10. (SBU) At the end of the discussion, we asked Maccotta for his assessment of current Italian private-sector attitudes toward doing business in Iraq. Maccotta said he has observed some renewed interest, which had been dampened considerably by mounting security concerns. He said 42-50 Italian companies are presently working with Iraqi ministries, primarily on projects related to electricity, oil, and water. Most of these contracts, Maccotta remarked, involve the supply of Italian-made equipment, rather than on-the-ground services. Italian companies are still very reluctant to put their own personnel in Iraq. Maccotta added, however, that there is lingering disappointment, both among Italian companies and government officials, that Italian firms have not been more successful at winning subcontracting work funded through the USG supplemental appropriation for Iraq.

## Comment

11. (C) Politically, the GOI remains firmly committed to the reconstruction of Iraq and to fulfilling its Euro 200 million Madrid pledge. A number of Italian projects appear, from our vantage point, to be truly well thought-out and responsive to Iraq's needs. However, harsh budget realities (which are likely to get worse given the Berlusconi government's 2005 tax cuts) mean Italian disbursements will likely continue to lag behind other donors. The GOI also appears to be broadening the number of past and current projects that fall under the Madrid pledge umbrella as a way of lessening its future obligations. This is the first time the MFA has explicitly told Post that essentially all Italian-funded aid projects in Iraq, including emergency humanitarian relief conducted in 2003-2004, should be counted towards Italy's Madrid commitment. End comment.

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